

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF LIMA	County WASHTENAW
Audit Date MARCH 31, 2006	Opinion Date JUNE 8, 2006	Date Accountant Report Submitted to State JUNE 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Karl L. Drake, CPA			
Street Address 3775 Kimmel Road	City Horton	State MI	Zip 49246
Accountant Signature 			

**TOWNSHIP
OF
LIMA**

FINANCIAL STATEMENTS

MARCH 31, 2006

TOWNSHIP OF LIMA

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INDEPENDENT AUDITOR'S REPORT

Township Board
Township of Lima
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Lima, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Lima's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Lima as of March 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006, on our consideration of the Township of Lima's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

Township Board
Township of Lima

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 23 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Lima's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "Karl L. Drake". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Karl L. Drake, P.C.
Certified Public Accountant

June 8, 2006

This section of the Township of Lima's annual financial report presents discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. It is best read in conjunction with the Township's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Township of Lima financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the entire Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund - the General Fund - with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent for the benefit of others.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund

(Required Supplemental Information)

Other Supplemental Information

Reporting The Township As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Township is, "As a whole, what is the Township's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Township's financial statements, report information on the Township as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Township's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Township's financial health or financial position. Over time, increases or decreases in the Township's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Township's operating results. However, the Township's goal is to provide services to residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Township.

The statement of net assets and statement of activities report the governmental activities for the Township, which encompass all of the Township's services, including general government, public safety, roads, and community enrichment. Property taxes and State Revenue Sharing finance most of these activities.

Reporting The Township's Most Significant Funds - Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds - not the Township as a whole. Some funds are required to be established by State law and by bond covenants. However, the Township establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Township use the following accounting approach:

Governmental funds - All of the Township's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Township and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Reporting The Township's Fiduciary Responsibilities -The Township As Trustee

The Township is the trustee, or fiduciary, for its tax collection and agency funds. All of the Township's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Township As A Whole

Recall that the statement of net assets provides the perspective of the Township as a whole. Table I provides a summary of the Township's net assets as of March 31, 2006 and 2005:

TABLE I	Governmental Activities	
	(In Thousands)	
	2006	2005
ASSETS		
Current and other assets	\$ 291.0	\$ 295.3
Capital assets - Net of accumulated depreciation	204.9	213.7
TOTAL ASSETS	495.9	509.0
LIABILITIES		
Current liabilities	89.4	18.4
Long-term liabilities	177.2	204.5
TOTAL LIABILITIES	266.6	222.9
NET ASSETS		
Invested in property and equipment - Net of related debt	4.4	9.3
Restricted	0.0	0.0
Unrestricted	224.9	276.8
TOTAL NET ASSETS	\$ 229.3	\$ 286.1

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Township's governmental activities is discussed below. Township's net assets were \$229.3 thousand at March 31, 2006. Capital assets, net of related debt totaling \$4.4 thousand compares the original cost, less depreciation of the Township's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Township's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$224.9 thousand) was unrestricted.

The \$224.9 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Township as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ending March 31, 2006 and 2005.

TABLE 2	Governmental Activities	
	(In Thousands)	
REVENUE	2006	2005
Program Revenue		
Charges for services	\$ 126.9	\$ 102.9
Grants and categoricals	0.0	0.0
General Revenue		
Property taxes	120.3	147.3
State Shared Revenue	170.0	170.8
Other	78.2	68.4
TOTAL REVENUE	\$ 495.4	\$ 489.4

FUNCTION/PROGRAM EXPENSES	(In Thousands)	
	2006	2005
General Government	\$ 220.6	\$ 210.3
Public Safety	278.9	235.7
Public Works	20.5	38.0
Community Enrichment	0.6	0.6
Interest on Long-Term Debt	22.8	0.0
Depreciation (unallocated)	8.8	3.5
TOTAL FUNCTION/PROGRAM EXPENSES	552.2	488.1
INCREASE <DECREASE> IN NET ASSETS	\$ -56.8	\$ 1.3

As reported in the statement of activities, the cost of all of our governmental activities this year was \$552.2 thousand. Certain activities were partially funded from those who benefited from the programs (\$126.9 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.0 thousand). The remaining "public benefit" portion of our governmental activities was paid with \$120.3 thousand in taxes, \$170.0 thousand in State Revenue Sharing, and with our other revenues, such as interest and general entitlements.

The Township experienced a decrease in net assets of \$56.8 thousand. The key reason for the change in net assets was fire safety expenditures. The decrease in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Township's taxpayers by each of these functions. Since property taxes for operations and State Revenue Sharing constitute the vast majority of the Township's operating revenue sources, the Township Board must annually evaluate the needs of the Township and balance those needs with State-prescribed available unrestricted resources.

The Township's Funds

As we noted earlier, the Township uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

As the Township completed this year, the governmental funds reported a combined fund balance of \$224.9 thousand, which is a decrease of \$52.0 thousand from last year. The primary reason for the decrease is rising public safety expenditures. The General Fund, our principal operating fund, saw the fund balance decrease \$51,985 to \$224,884, which is an improvement over the budgeted decrease of \$-246,145.

General Fund Budgetary Highlights

Over the course of the year, the Township amends its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset And Debt Administration

Capital Asset

At March 31, 2006, the Township had \$204.9 thousand invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$8,865 or 4 percent, from last year.

	2006	2005
Land	\$ 71,675	\$ 71,675
Buildings	151,591	151,591
Vehicles	---	---
Equipment	38,961	38,961
Total Capital Assets	262,227	262,227
Less Accumulated Depreciation	57,339	48,474
Net Capital Assets	\$ 204,888	\$ 213,753

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

Our elected officials and administration considered many factors when setting the Township's 2007 fiscal year budget.

Because the Township's revenue is heavily dependent on State Shared Revenue, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Townships. The State periodically holds a revenue consensus conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

The Township's budget is very similar to the prior year. Interest rates on the Township's savings accounts should increase slightly, providing slightly higher interest revenues. The Township's taxable value will be higher, increasing the property tax revenues. Expenditures for fire safety will continue to increase.

Contacting The Township's Financial Management

This financial report is designed to provide the Township's citizens, taxpayers, customers, investors and creditors of the Township of Lima with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Township Clerk, P.O. Box 59, Chelsea, Michigan 48118.

TOWNSHIP OF LIMA

STATEMENT OF NET ASSETS

March 31, 2006

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 258,261
Accounts Receivable	13,754
Prepaid Expenditures	18,972
Total Current Assets	290,987
Non-current Assets	
Capital Assets	262,227
Less: Accumulated Depreciation	-57,339
Total Non-current Assets	204,888
TOTAL ASSETS	\$ 495,875
LIABILITIES AND NET ASSETS	
LIABILITIES	
Current Liabilities	
Current Portion of Bonds and Notes Payable	\$ 13,634
Accounts Payable	17,044
Accrued Interest	9,623
Deferred Revenue	49,059
Total Current Liabilities	89,360
Non-current Liabilities	
Bonds and Notes Payable (Net of Current Portion)	177,233
Compensated Absences and Severance Pay	---
Total Non-current Liabilities	177,233
TOTAL LIABILITIES	266,593
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,398
Restricted for Debt Service	---
Unrestricted	224,884
TOTAL NET ASSETS	229,282
TOTAL LIABILITIES AND NET ASSETS	\$ 495,875

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

		Program Revenues		Governmental Activities
		Charges For Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
	Expenses			
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ 220,608	\$ ---	\$ ---	\$ -220,608
Public Safety	278,895	126,950	---	-151,945
Public Works	20,528	---	---	-20,528
Community Enrichment	600	---	---	-600
Interest on Long-Term Debt	22,778	---	---	-22,778
Depreciation (Unallocated)	8,865	---	---	-8,865
Total Governmental Activities	<u>\$ 552,274</u>	<u>\$ 126,950</u>	<u>\$ ---</u>	<u>\$ -425,324</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ 120,306
Property Taxes, Levied for Debt Service				---
State of Michigan Aid, Unrestricted				169,995
Interest Earnings				3,899
Other				<u>74,284</u>
Total General Revenue				<u>368,484</u>
CHANGE IN NET ASSETS				-56,840
NET ASSETS - BEGINNING OF YEAR				<u>286,122</u>
NET ASSETS - END OF YEAR				<u>\$ 229,282</u>

See Accompanying Notes to Financial Statements.

TOWNSHIP OF LIMA

BALANCE SHEET - GOVERNMENTAL FUNDS

MARCH 31, 2006

	General	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 258,261	\$ ---	\$ 258,261
Accounts Receivable	8,574	---	8,574
Due from Other Governmental Units	---	---	---
Due from Other Funds	5,180	---	5,180
Inventories	---	---	---
Prepaid Expenditures	18,972	---	18,972
TOTAL ASSETS	\$ 290,987	\$ ---	\$ 290,987
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 17,044	\$ ---	\$ 17,044
Due to Other Funds	---	---	---
Deferred Revenue	49,059	---	49,059
TOTAL LIABILITIES	66,103	---	66,103
FUND BALANCES			
Reserved for Inventories	---	---	---
Unreserved, Designated	---	---	---
Unreserved and Undesignated	224,884	---	224,884
TOTAL FUND BALANCES	224,884	---	224,884
TOTAL LIABILITIES AND FUND BALANCES	\$ 290,987	\$ ---	\$ 290,987
TOTAL GOVERNMENTAL FUND BALANCES			\$ 224,884
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets is			\$ 262,227
Accumulated Depreciation is			<u>-57,339</u>
			204,888
Long-term Liabilities are not due and payable in the current period and are not reported in the fund			
Bonds and Notes Payable			-190,867
Compensated absences			---
Accrued interest is not included as a liability in governmental funds			<u>-9,623</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			\$ 229,282

See Accompanying Notes to Financial Statements.

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	General	Other Funds	Totals
REVENUE			
Property Taxes	\$ 120,306	\$ ---	\$ 120,306
State Grants	169,995	---	169,995
Permits and Licenses	126,950	---	126,950
Interest	3,899	---	3,899
Other	74,284	---	74,284
TOTAL REVENUE	495,434	---	495,434
EXPENDITURES			
General Government	220,608	---	220,608
Public Safety	278,895	---	278,895
Public Works	26,788	---	26,788
Recreational and Cultural	600	---	600
Debt Service	20,413	---	20,413
Capital Outlay	115	---	115
TOTAL EXPENDITURES	547,419	---	547,419
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-51,985	---	-51,985
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES <USES>	---	---	---
NET CHANGE IN FUND BALANCES	-51,985	---	-51,985
FUND BALANCES - BEGINNING OF YEAR	276,869	---	276,869
FUND BALANCES - END OF YEAR	\$ 224,884	\$ ---	\$ 224,884

See Accompanying Notes to Financial Statements.

TOWNSHIP OF LIMA

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2006

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ -51,985**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	-8,865	
Capital Outlay	<u>---</u>	-8,865

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid -9,623

- Repayment of bond and note principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 13,633

- Uncollected property tax revenue is deferred in the governmental funds, but not in the statement of activities ---

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds ---

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ -56,840**

STATEMENT OF NET ASSETS

FIDUCIARY FUNDS

MARCH 31, 2006

	<u>Sewer Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 47,053
Accounts Receivable	<u>---</u>
TOTAL ASSETS	<u>\$ 47,053</u>
 LIABILITIES	
Due to Other Funds	\$ 5,180
Due to Other Entities	<u>---</u>
Due to Other Taxing Units	<u>41,873</u>
TOTAL LIABILITIES	<u>\$ 47,053</u>

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Township of Lima covers an area of approximately 36 square miles located in Washtenaw County, Michigan. The Township operates under an elected Board of Trustees consisting of five members and provides various services to its residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Fiduciary Funds - These funds, used to account for assets held in trust or as an agent for others, include Current Tax Collection Fund.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

TOWNSHIP OF LIMA

NOTES TO FINANCIAL STATEMENTS

C. BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Real and personal property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the subsequent year. Taxes are due and payable as of February 14. The property tax revenue in the accompanying financial statements was recognized as that levied during the year.

All unpaid taxes become delinquent after February 28, at which time the uncollected real taxes are returned to Washtenaw County for collection and to be added to the delinquent tax rolls. The County of Washtenaw purchases delinquent real property taxes of the Township of Lima. The County sells tax notes, the proceeds of which are used to pay the Township for the taxes. This is expected to take place in June 2006. These taxes have been recorded as revenue for the current year.

The Township is authorized to assess 1 mill for general operations. Millage rates levied for 2005 were .8514 mills for operations. Total taxable value of real and personal property in the Township was \$140,797,616.

The Township is responsible for the collection of delinquent personal property taxes.

E. CASH EQUIVALENTS

The Township considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. FINANCIAL INSTRUMENTS

The Township does not require collateral to support financial instruments subject to credit risk.

G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

H. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

I. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, vehicles, and infrastructure assets (e.g. streets, bridges, drains) are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15-50 years
Vehicles	5-20 years
Equipment	5-20 years

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS: The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Township, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township is in compliance with State law regarding their cash deposits.

The Township maintains all of its cash deposits at one bank.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Township's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured & Uncollateralized	205,314	235,189
Total Deposits	<u>\$ 305,314</u>	<u>\$ 335,189</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at March 31, 2006.

NOTE 4 - DUE TO/FROM OTHER FUNDS

Due to/due from at March 31, 2006, consisted of the following:

<u>Due To:</u>		<u>Due From:</u>	
General Fund	<u>\$ 5,180</u>	Tax Collection	<u>\$ 5,180</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Township's Governmental activities was as follows:

	Balance April 1, 2005	Additions	Disposals and Adjustments	Balance March 31, 2006
Assets not being depreciated:				
Land	\$ 71,675	\$ ---	\$ ---	\$ 71,675
Capital assets being depreciated:				
Buildings	151,591	---	---	151,591
Vehicles	---	---	---	---
Equipment	38,961	---	---	38,961
Subtotal	190,552	---	---	190,552
Accumulated depreciation:				
Buildings	13,885	7,540	---	21,425
Vehicles	---	---	---	---
Equipment	34,589	1,325	---	35,914
Subtotal	48,474	8,865	---	57,339
Net capital assets being depreciated	142,078	-8,865	---	133,213
Net capital assets	<u>\$ 213,753</u>	<u>\$ -8,865</u>	<u>\$ ---</u>	<u>\$ 204,888</u>

Depreciation expense was not charged to activities as the Township considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 - EXPENDITURES IN EXCESS OF BUDGET

During the year ended March 31, 2006, the Township incurred no expenditures that were in excess of the amounts budgeted.

TOWNSHIP OF LIMA

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RETIREMENT PLAN

The Township has a defined contribution retirement plan through Michigan Municipal Employees Retirement System. The Township's contribution for the year ended March 31, 2006 was \$10,425, which was 12.53% of qualifying wages of \$83,200.

NOTE 8 - ACCUMULATED SICK AND VACATION PAY

Amounts accumulated for accrued sick and vacation pay are immaterial and have not been entered in the accounting records.

NOTE 9 - RISK MANAGEMENT AND LITIGATION

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Township has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At March 31, 2006, no claims exist, and no provision has been entered into the accounting records.

NOTE 10 - INSTALLMENT NOTE PAYABLE

On September 4, 2004, the Township entered an installment purchase agreement with a bank for the purchase of real property. The agreement calls for 15 annual payments on May 1 through 2019. These payments include interest at 5.5%. The outstanding loan balance at March 31, 2006 was \$190,867. Future obligations are as follows:

Year ending March 31,	2007	\$ 13,633	\$ 10,498	\$ 24,131
	2008	13,633	9,748	23,381
	2009	13,634	8,998	22,632
	2010	13,633	8,248	21,881
	2011	13,633	7,498	21,131
	2012	13,634	6,748	20,382
	2013	13,633	5,999	19,632
	2014	13,633	5,249	18,882
	2015	13,634	4,499	18,133
	2016	13,633	3,749	17,382
	2017	13,633	2,999	16,632
	2018	13,634	2,249	15,883
	2019	13,633	1,500	15,133
	2020	13,634	750	14,384
		<u>\$190,867</u>	<u>\$ 78,732</u>	<u>\$ 269,599</u>

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF LIMA

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED MARCH 31, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ 119,000	\$ 119,000	\$ 120,306	\$ 1,306
State Shared Revenue	173,000	173,000	169,995	-3,005
Permits and Licenses	75,000	75,000	126,950	51,950
Interest	2,000	2,000	3,899	1,899
Other	62,800	62,800	74,284	11,484
Transfers In	---	---	---	---
TOTAL REVENUE	431,800	431,800	495,434	63,634
EXPENDITURES				
General Government	249,750	232,300	220,608	11,692
Public Safety	240,500	375,045	278,895	96,150
Public Works	39,000	28,000	26,788	1,212
Recreation and Culture	600	600	600	---
Debt Service	60,000	35,000	20,413	14,587
Capital Outlay	7,000	7,000	115	6,885
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	596,850	677,945	547,419	130,526
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES AND OTHER USES	-165,050	-246,145	-51,985	194,160
BUDGETARY FUND BALANCE - APRIL 1, 2005	276,869	276,869	276,869	---
BUDGETARY FUND BALANCE - MARCH 31, 2006	\$ 111,819	\$ 30,724	\$ 224,884	\$ 194,160

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

TOWNSHIP OF LIMA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2006

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Taxes	\$ 119,000	\$ 120,306	\$ 1,306
State Shared Revenue	173,000	169,995	-3,005
Reimbursements	10,000	11,980	1,980
Permits and Licenses	75,000	126,950	51,950
Interest	2,000	3,899	1,899
Administrative Fees	42,000	47,681	5,681
Tax Collection Fees	3,800	3,598	-202
Telecommunication Fees	5,000	7,105	2,105
Miscellaneous	2,000	3,920	1,920
TOTAL REVENUE	431,800	495,434	63,634
EXPENDITURES			
GENERAL GOVERNMENT			
<u>Executive</u>			
Trustees	5,400	5,400	---
Supervisor	22,050	22,050	---
Assessor	18,000	18,000	---
Mileage	3,550	3,447	103
Training	1,500	828	672
Contracted Services	1,350	1,514	-164
Miscellaneous	500	66	434
<u>Elections</u>			
Salaries	4,000	1,672	2,328
Supplies	3,500	238	3,262
<u>Finance</u>			
Clerk	22,050	22,050	---
Treasurer	22,050	22,050	---
Secretary	14,000	11,375	2,625
Board of Review	1,000	654	346
Payroll Taxes	2,500	2,014	486
Retirement	9,500	10,425	-925
Office Supplies	6,000	3,912	2,088
Printing	5,000	3,258	1,742
Professional Fees	42,000	48,512	-6,512
Contracted Services	1,500	1,408	92
Insurance	20,050	19,636	414
Mileage	4,000	3,719	281
Training	500	401	99
Miscellaneous	500	31	469
<u>Township Hall</u>			
Supplies	300	85	215
Maintenance	9,000	8,620	380
Utilities	8,000	5,193	2,807

	Budget	Actual	Variance Favorable <Unfavorable>
GENERAL GOVERNMENT (CONTINUED)			
<u>Other</u>			
Tax Refunds	\$ 500	\$ 381	\$ 119
Dues	4,000	3,669	331
TOTAL GENERAL GOVERNMENT	232,300	220,608	11,692
PUBLIC SAFETY			
<u>Fire Safety</u>	259,595	259,595	---
<u>Planning</u>			
Salaries	7,500	5,785	1,715
Zoning Administrator	12,000	11,723	277
Supplies	1,000	432	568
Printing	1,250	773	477
Professional Fees	92,700	---	92,700
Mileage	500	460	40
Miscellaneous	500	127	373
TOTAL PUBLIC SAFETY	375,045	278,895	96,150
PUBLIC WORKS			
Roads	16,000	15,570	430
Sanitation	2,000	1,304	696
Drains	10,000	9,914	86
TOTAL PUBLIC WORKS	28,000	26,788	1,212
RECREATION AND CULTURAL			
Culture	600	600	---
DEBT SERVICE	35,000	20,413	14,587
CAPITAL OUTLAY	7,000	115	6,885
TOTAL EXPENDITURES	677,945	547,419	130,526
EXCESS OF REVENUE OVER <UNDER> EXPENDITURES	-246,145	-51,985	194,160
OTHER FINANCING SOURCES <USES>			
Operating Transfers In	---	---	---
Operating Transfers <Out>	---	---	---
EXCESS OF REVENUE AND OTHER SOURCES OVER <UNDER> EXPENDITURES AND OTHER USES	-246,145	-51,985	194,160
FUND BALANCE April 1, 2005	276,869	276,869	---
FUND BALANCE - MARCH 31, 2006	\$ 30,724	\$ 224,884	\$ 194,160

TOWNSHIP OF LIMA

AGENCY FUNDS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS

MARCH 31, 2006

	Balance 04/01/05	Additions	Deductions	Balance 03/31/06
CURRENT TAX COLLECTION FUND				
ASSETS				
Cash in Bank	\$ 98,477	\$ 4,634,150	\$ 4,685,574	\$ 47,053
Due from Other Funds	---	---	---	---
TOTAL ASSETS	<u>\$ 98,477</u>	<u>\$ 4,634,150</u>	<u>\$ 4,685,574</u>	<u>\$ 47,053</u>
LIABILITIES				
Due to Other Funds	\$ 4,121	\$ 166,823	\$ 165,764	\$ 5,180
Due to Other Taxing Units	94,356	4,467,327	4,519,810	41,873
TOTAL LIABILITIES	<u>\$ 98,477</u>	<u>\$ 4,634,150</u>	<u>\$ 4,685,574</u>	<u>\$ 47,053</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Township Board
Township of Lima

We have audited the general-purpose financial statements of the Township of Lima as of and for the year ended March 31, 2006, and have issued our report thereon dated June 8, 2006. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township of Lima's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Lima's control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of Township Board, management and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

June 8, 2006